



TAPS at 35: Accounting for the Oil Revenues

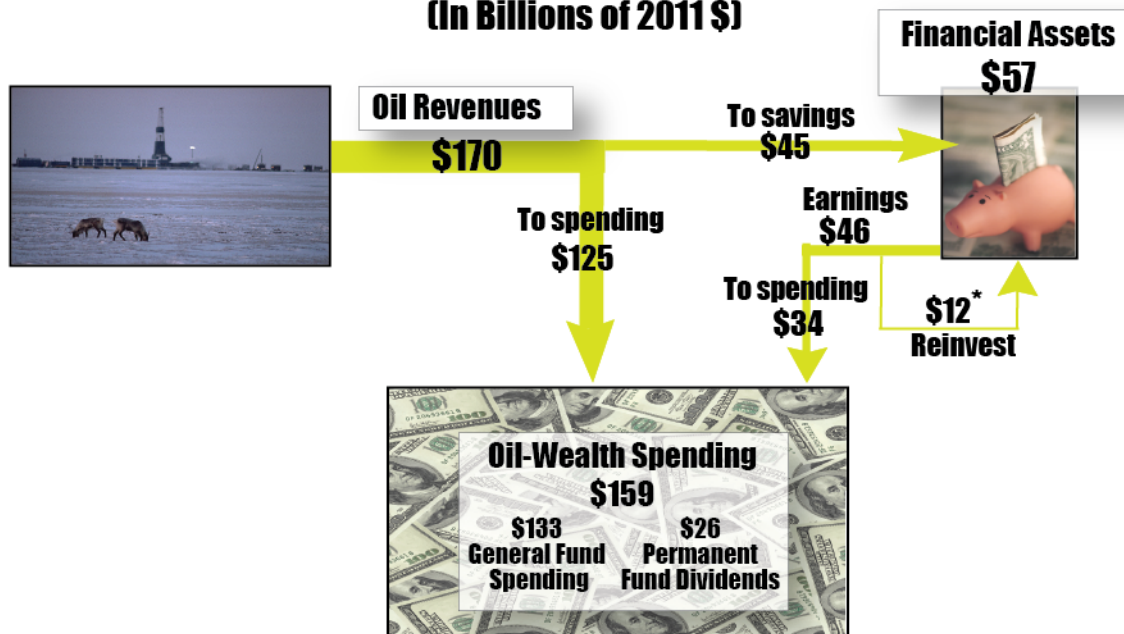
by Scott Goldsmith

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Thirty-five years ago, on June 20, 1977, oil from state-owned land on the North Slope began flowing through the trans-Alaska pipeline. Since then, the state has collected \$170 billion in oil revenues, in today's dollars.ⁱ Petroleum (both oil and gas) still in the ground might generate another \$100 billion for the state.ⁱⁱ What has Alaska done with its oil wealth so far?

- *About \$45 billion (26%) went into savings accounts—the Permanent Fund and other accounts—and \$125 billion (74%) was spent through the General Fund, for government services and programs.*
- *The savings accounts have generated \$46 billion of investment earnings over the years.*ⁱⁱⁱ About \$34 billion of that was spent and \$12 billion was reinvested in the savings accounts.
- *Total oil wealth saved to date is about \$57 billion*—the \$45 billion initially deposited in financial accounts and the \$12 billion of earnings reinvested in the accounts.
- *Total oil wealth spent so far is about \$159 billion*—\$125 billion in oil revenues and \$34 billion in earnings from the savings accounts created with oil revenues.
- *About \$133 billion of the oil wealth was spent for broad government operations*, including not only services like education and transportation but also loan funds and investments. The other \$26 billion was paid directly to Alaskans in Permanent Fund dividends—which are annual payments to all residents, based on earnings of the Permanent Fund.

Figure 1. The Flow of Alaska's Petroleum Wealth, 1977-2012
(In Billions of 2011 \$)



* Does not include additional earnings retained in the Permanent Fund to protect it from the effects of inflation.

Source: Institute of Social and Economic Research, UAA

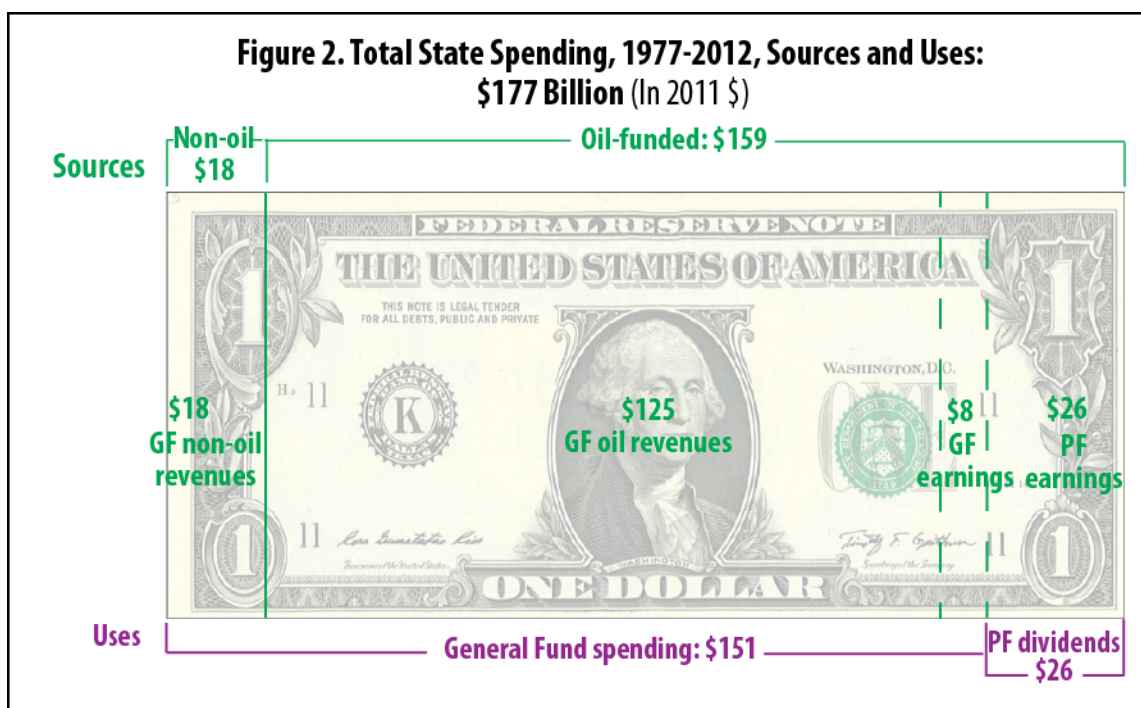
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Oil Revenues and Non-Oil Revenues

Since 1977, a combination of oil revenues and earnings generated by accounts built with oil revenues has paid for most state spending. Figure 2 shows how oil revenues, earnings from financial accounts, and non-oil revenues have contributed to total state spending in the past 35 years.

- **Total state spending—from oil wealth and non-oil revenues—from 1997 to 2012 was \$177 billion (in 2011 dollars).**^{iv} That consisted of \$159 billion from oil-related sources—as we discussed earlier—and \$18 billion from non-oil revenues.
- **Oil-wealth spending—both revenues related to production and earnings from funds created by those revenues—accounted for 90% (\$159 billion) of total state spending since 1977.**
- **Non-oil revenues accounted for the remaining 10% of total state spending.**
- **General Fund spending since 1977 was about \$151 billion, from a combination of \$125 billion in oil revenues, \$18 billion in non-oil revenues, and \$8 billion in earnings of the General Fund.** (Revenues held in the General Fund are invested until they're needed for spending.)
- **The state so far has spent \$26 billion of Permanent Fund earnings to make direct payments to Alaska residents.** The Permanent Fund is a savings account established by Alaska voters in 1976, and by law a share of state petroleum revenues are deposited in the fund. The legislature can't spend the principal of the fund, but since the early 1980s it has spent part of the fund earnings for annual payments known as Permanent Fund dividends.

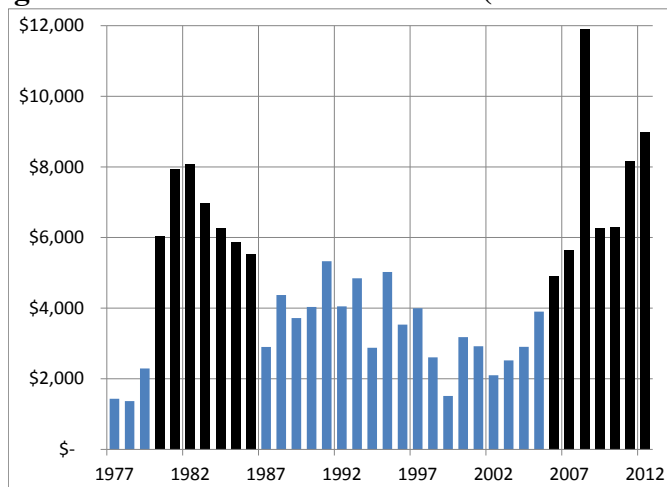


History of Oil Revenues

Oil revenues were high in the early years of pipeline operation, because both the throughput and the price of oil were high. In the seven-year period from 1980 through 1986, the state collected \$47 billion in revenues, measured in today's dollars.

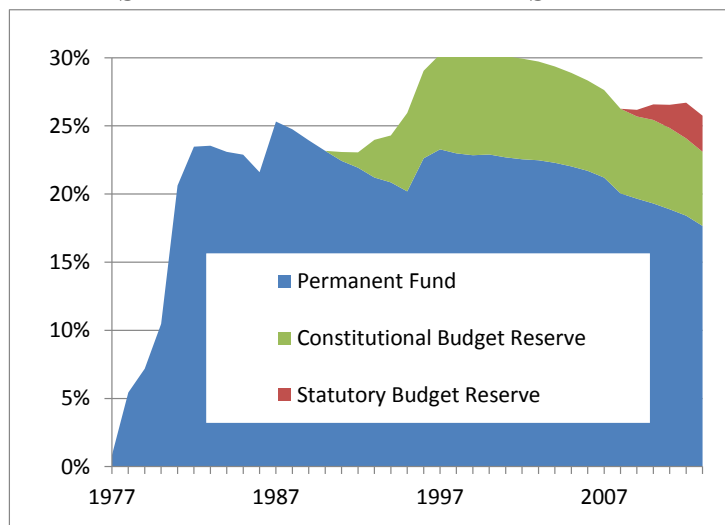
But in the last seven years revenues have been higher, in spite of lower throughput, due to a combination of the highest oil prices on record and a restructured production tax. Between 2006 and 2012, the state collected \$52 billion in revenue. It collected close to \$12 billion just in the peak year of 2008.

Figure 3. State Petroleum Revenues (Million 2011 \$)



In early years, all the financial savings went into the Permanent Fund, but the state later established the Constitutional Budget Reserve and the Statutory Budget Reserve, which since 1990 have also become important savings accounts. Today 26% of total petroleum revenues have accumulated in these three accounts.

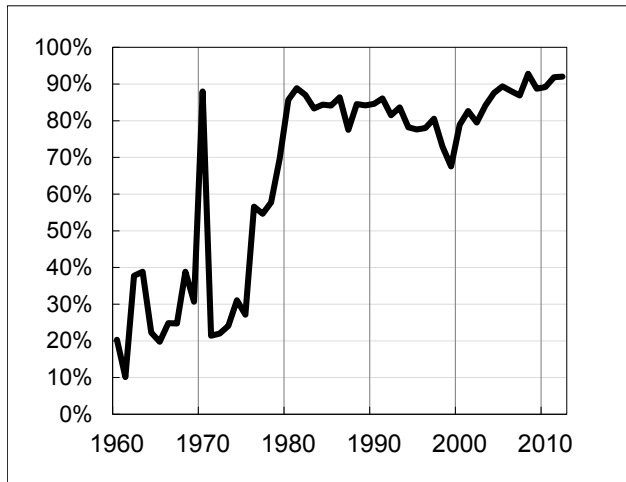
Figure 4. Cumulative Share of Petroleum Revenues Saved in Financial Accounts^v



Oil Revenues as Share of General Fund Revenues

Of the \$170 billion in oil revenues the state has collected since 1977, most—\$141 billion—were initially deposited in the General Fund, accounting for 85% of state General Fund revenues since 1977. The share in 2012 was 92%—the highest it has ever been.^{vi}

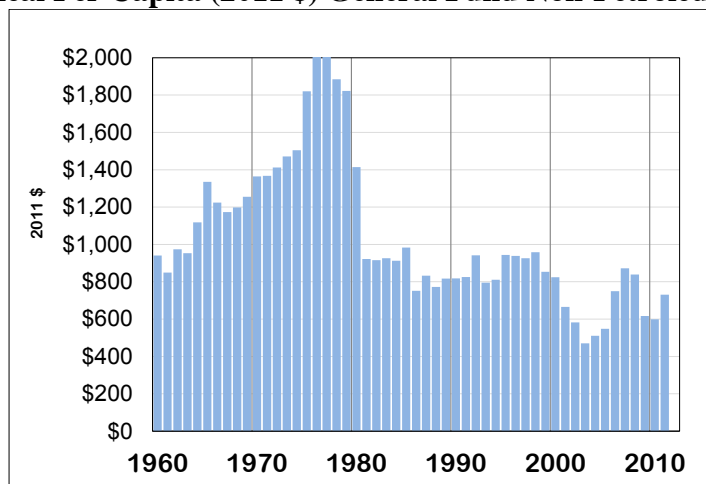
Figure 5. Petroleum Share of General Fund Revenues



Some of those General Fund petroleum revenues were transferred to state financial accounts: \$12 billion was deposited in the Permanent Fund, augmenting the direct deposit of royalties, and \$4 billion went into the Statutory Budget Reserve. The remaining \$125 billion of General Fund petroleum revenues—as shown in Figure 1—has been invested, spent, distributed, and loaned to Alaskans.

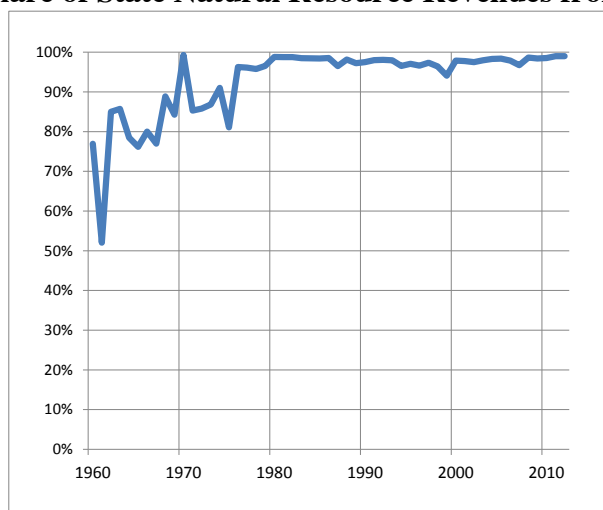
General Fund spending has also been financed since 1977 by \$8 billion of General Fund investment earnings and \$18 billion of non-petroleum revenues (Figure 2). Revenues from non-petroleum sources have been around \$800 per capita since the state eliminated the personal income tax in 1980.

Figure 6. Real Per Capita (2011 \$) General Fund Non-Petroleum Revenues



The state collects modest revenues from natural resource production other than petroleum—primarily fish and minerals. Petroleum accounts for 98% of all state natural resource revenues.

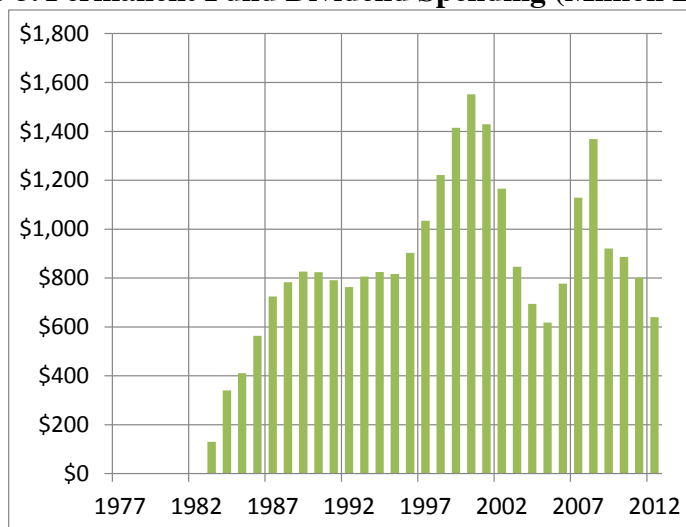
Figure 7. Share of State Natural Resource Revenues from Petroleum



Spending from Financial Earnings

Since 1977, the state has spent \$34 billion of financial earnings—\$26 billion of Permanent Fund earnings for annual Permanent Fund dividends, and \$8 billion of General Fund earnings for General Fund spending. The figure below shows annual dividend spending since the legislature established the program in the early 1980s.

Figure 8. Permanent Fund Dividend Spending (Million 2011 \$)^{vii}



Endnotes

ⁱ The sum through fiscal year 2012.

ⁱⁱ This is its value if all the revenues could be turned into cash today (the net present value).

ⁱⁱⁱ That \$46 billion is in addition to the earnings retained in the Permanent Fund to protect it from inflation.

^{iv} Excluding spending funded from restricted sources—state restricted funds and federal funds.

^v Between 1993 and 2010 funds were borrowed from the Constitutional Budget Reserve to pay government operating costs.

^{vi} If revenues indirectly dependent on petroleum-related economic activity were included, the share would be even higher.

^{vii} This excludes special payments from the General Fund of \$1,000 per eligible Alaskan in 1982 and \$1,200 in 2008. The 1982 payment marked the first year of the dividend program, and the 2008 payment was to help cover rising energy costs.